

# Spreading the net

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Companies operating in the natural resources and alternative energy sectors are providing rich pickings for the Central London law firm Kerman & Co LLP. **Marc Barber** reports

The success of AIM, especially around 2006 to 2007, was based in large part on its ability to attract companies from around the world. Chief executives from Asia to America saw the London Stock Exchange's junior market as the place to go if you wanted the funds to satiate your ambition.

At Kerman & Co LLP, a law firm with 11 partners, it's the international spread of clients that has seen the firm prosper during these decidedly harsher times. Kerman's speciality lies with small-caps in the natural resources and energy sectors, operating in far flung locations such as Australia, Cameroon, Kazakhstan, Mongolia, Niger, Russia and South Africa.

Keith Dempster, corporate finance partner for Kerman & Co LLP, says: 'This recession hasn't impacted in the same way consistently around the globe. In the UK, we're very focused on the problems of the banks and the resulting credit crunch.'

## REALITY BITES

On the deal side, Dempster says he currently has a number of M&A transactions 'on the go', but he acknowledges that the type of work has changed: 'The difference in activity is that the deals are asset driven and it's trade buyers as opposed to financial acquirers. People are taking longer to do the deals because they need to integrate the target companies and assets to make them work, rather than just buying something to try and make a quick return.'

Moreover, there is greater competition in terms of pricing. 'People are closely examining fee estimates and we've been flexible and applied innovative fee

structures where appropriate. There are advisers out there who appear to be offering their services for silly money. Some advisers are obviously hurting badly.'

Inevitably, acquirers are keen to make sure there aren't any skeletons in the closet of a target company so due diligence has come to the fore. 'The people with cash on AIM are the ones who are able to buy up businesses, and the deals are taking longer

as the due diligence is more detailed. The other point here is that advisers have got more time on their hands and can do things thoroughly, rather than rushing through it.'

Dempster argues that companies are using their paper to fund deals. 'Companies will need to go out and raise equity even if it's only to match what is being provided by the banks,' he comments, adding that the loan-to-value ratio offered by banks is now much lower, hovering at around the 60 per cent mark.

## OTHER PLAYERS

Given the cost of being registered on AIM and the lack of liquidity for the companies with a sub-£50 million market cap, Dempster suggests there could be a real role for PLUS Markets to play as the economy picks up. 'Companies will be asking themselves whether they should be on AIM – so they may be considering if they should move to PLUS. Maybe the change won't happen just yet, as many will be on fixed-term retainers with nomads and

brokers, and I still believe that most people think that life post the recession will be the same as before it started. It won't be.'

For Dempster, PLUS Markets could 'become what AIM was when it started out'. He is encouraged by the number of Chinese and Irish companies listing on PLUS, but notes that there is still work to be done to really get the exchange noticed by brokers. He feels that a shake-up of

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some description among small-caps is inevitable once confidence returns and chief executives start thinking about the future as opposed to cash flow.

Given the range of secondary fundraising transactions Kerman & Co has worked on recently, such as Victoria Oil & Gas raising £16 million and Metals Exploration generating £12 million, it's evident that maintaining an international presence will be essential over the coming months. Says Dempster: 'Those countries that aren't so reliant on the banking system as part of their economy and have valuable resources aren't in such a bad situation.' ■



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